

## LOOK BEFORE YOU LEASE

To lease or buy? That's the choice you face when looking for a new vehicle. Leasing a vehicle is not the same as buying one. When you buy, you own the vehicle. When you lease, you pay to drive someone else's vehicle. Although leasing can involve lower monthly payments than a loan, at lease end you will have no ownership or equity in the vehicle.

A lease requires a prepayment of the first monthly payment and a security deposit (usually the same amount as a monthly payment). Often there is no down payment, but capitalized cost reduction gives you the option to pay money up front to help reduce monthly payments. You should also count on paying title, registration, and license fees. Once you have leased the vehicle, you will also need insurance.

If you're thinking of leasing, consider these shopping tips:

1. Shop as if you're buying a vehicle. Negotiate all the lease terms, including the price of the vehicle. Lowering the lease price will help reduce your monthly payments. Be sure to get all the terms in writing.
2. Learn the language of leasing:
  - a. In a **closed-end** lease, you return the car at the end of the lease and "walk away," but you're still usually responsible for certain end-of-lease charges, such as excess mileage, wear and tear, and disposition. In an **open-end** lease, you pay the difference between the value stated in your contract and the lessor's appraised value at the end of the lease.
  - b. **Lease inception** fees are payments you must make when the lease starts and may include a down payment, security deposit, acquisition fee, first month's payment, taxes, and title fees. Ask for a list of all charges due at lease inception. You may be able to negotiate some or all of the terms.
  - c. The **capitalized cost** is the price of the car for leasing purposes plus taxes and extra charges like service contracts and registration fees.
  - d. The **capitalized cost reduction** is similar to a down payment. If you're trading in a car, make sure the dealer applies the trade-in value to the price your lease is based on. The trade-in credit may reduce your down payment or monthly payments.
3. Ask whether extra charges will be assessed for excessive mileage, wear and tear, disposition, and early termination, and find out the amount of these charges. Most leases allow you to drive 12,000 to 15,000 a year. If you put on more miles, expect a charge of 10 to 25 cents for each additional mile. You may think the ding in the door is normal wear and tear; to the lessor it may be significant damage.

4. Check out penalties for an early return. Expect to pay a substantial charge if you give the car up before the end of your lease. If there is an option to buy the vehicle at the end of the lease, ask how the price will be determined.
5. Make sure the manufacturer's warranty covers the entire lease term and the number of miles you're likely to drive.
6. Make sure "gap insurance" is included. It pays off the difference between what you owe on the vehicle and its worth if it is stolen or destroyed. Some lease companies toss this in for free; others charge a fee. It should not cost more than \$200.
7. Before you sign the deal, take a copy of the contract home and review it carefully ~ away from any dealer pressure. Look for any charges that were not disclosed at the dealership, such as conveyance, disposition, and preparation fees. Walk away from the deal if the lease company will not let you take home a copy of the contract before you sign.

It generally does not make sense to enter into a lease that is longer than four years. Three years is the norm. Some companies offer their best deals on two-year leases. Consider only closed-ended leases, which do not obligate you to buy the car at the end of the lease or to make up any shortfall in its residual value.

Be prepared for end-of-lease surprises. You may be asked to pay not only for excess wear and tear, but also for preparing the car for resale and for items such as brakes, tires, and exhaust-system parts.

Buying (not leasing) a vehicle may be in your best interest if you plan to keep your car for more than four years and/or drive more than 15,000 miles per year. Whatever your decision, make sure you understand the lease or purchase agreement before signing. Ask questions, nail down the details, read the fine print, and shop around.